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Contents

14

IBD ELITE 2024: THE MYTH OF BIG VERSUS SMALL

The largest firms enjoy distinct advantages, to be sure. But many small and midsize independent wealth management firms have an edge, too.

BY TOBIAS SALINGER

COVER ILLUSTRATION BY SENA KWON

Practice Management

6

Teaming comes with advantages for advisors: Cerulli study

Working in teams can boost productivity, make succession easier and allow financial advisors to move upmarket, research suggests.

BY SABRINA TICER-WURR

8

Nonfinancial reasons clients hire, keep or fire advisors

Experts say that emotional or personal motivations can be just as important (or more important) than the need for "functional" professional services.

BY TOBIAS SALINGER

10

How to work with clients across the political spectrum

Instead of shying away from fraught interactions as the presidential race heats up this election season, financial advisors say it's important to face them head-on.

BY ROB BURGESS

Industry News

11

Recruiting loan balances and big wealth managers

Firms that haven't been afraid of generous recruiting offers have shown the greatest growth in recent years; here's a look at the numbers behind that relationship.

BY DAN SHAW

Contents

8

28

Tax and Retirement

26
Great art can bring grand tax savings on capital gains
Works of art carry higher rates than most investments, but financial advisors and their clients can tap into trusts, charitable donations, loss harvesting and the stepped-up basis.
BY TOBIAS SALINGER

28
Paying off mortgages into retirement may make sense
Low-interest debt backed by an asset can be good, but high-interest, unsecured credit cards are not; however, reducing high-interest credit card debt should be a priority.
BY ROB BURGESS

Investment Strategies

29
Advisors, clients warm up to preferred securities
The growing fixed-income products carry some risks, but their returns and tax savings can be attractive.
BY TOBIAS SALINGER

30
Advisors look to private markets for diversification
As more portfolios rely on alternative investments, expertise in sorting out good from bad opportunities is critical.
BY DAN SHAW

Fintech

33
Firms, tech vendors have shorter-term relationships
Wealth management firms find it harder to enter into long-term contracts with vendors.
BY RACHEL WITKOWSKI

34
With new tech, advisors are the best beta testers
As wealth managers rush to keep up, a common oversight is not testing new tools on those who will use them.
BY RACHEL WITKOWSKI

Wealth Think

38
How to help clients include pet care in estate plans
Few wills take pets into account. Advisors can ensure family pets are properly included.
BY PEGINE GRAYSON

39
Why more RIAs are offering in-house insurance
Client discussions about tax and more can raise questions best addressed through insurance.
BY MATTHEW CELENZA

Upfront & more

3 Retirement Advisor Confidence Outlook

41 CE Quiz

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1 STATE STREET PLAZA, 27TH FLOOR
NEW YORK, NY 10004-1505 • (212) 803-8200

EDITOR-IN-CHIEF
Brian Wallheimer

MANAGING EDITOR
Cat Auer

CHIEF CORRESPONDENT
Tobias Salinger

RETIREMENT REPORTER
Nathan Place

TECH REPORTER
Rachel Witkowski

REPORTERS
Rob Burgess, Dan Shaw, Sabrina Ticer-Wurr

COLUMNISTS
Matthew Celenza, Pegine Grayson

COPY EDITORS
Dina Hampton, Rebecca Stropoli

VP, DESIGN AND PRODUCTION
Michael Chu

SENIOR DESIGNER
Sena Kwon

DIRECTOR, MARKETING SERVICES AND EVENTS
Kris Kadel (908) 625-1008

SALES MANAGERS, MARKETING SERVICES AND EVENTS
Tony Andrade, Nicole Mazzara, Hilary Whidden

MARKETING COORDINATOR
Aaron Boscanin

arizent

CHIEF EXECUTIVE OFFICER .... Jeff Mancini

CHIEF FINANCIAL OFFICER .... Jeffrey Choong

CHIEF MARKETING OFFICER .... Fell Gray

EXECUTIVE VICE PRESIDENT, EVENTS .... Jon Moore

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Benchmark

DATA-BASED INSIGHT FROM FINANCIAL PLANNING AND ARIZENT RESEARCH

Retirement Advisor Confidence Outlook

Retirement confidence plateaus as clients hold their breath for election

In July, retirement advisors' confidence in the economy broke even; however, a closer look shows rising anxiety.

By Nathan Place

Retirement confidence appeared to hold steady in July, but beneath this placid surface is more tumult than meets the eye.

In July, retirement advisors and their clients remained exactly as confident in the U.S. economy as they had been in June. That's according to the Retirement Advisor Confidence Outlook (RACO), Arizent's study of financial planners who help clients save for their golden years.

Every month, RACO surveys hundreds of advisors and measures their confidence on a scale of minus-100 to 100. That score stayed level at minus-4 in July, precisely where it had been one month prior.

Yet a closer look at the data shows not stability, but dramatic upswings and downswings of confidence in different areas of the economy. The net effect of these contradictions is an overall score that remained flat, but advisors reported spiking anxiety among their clients — particularly with regard to the U.S. presidential election.

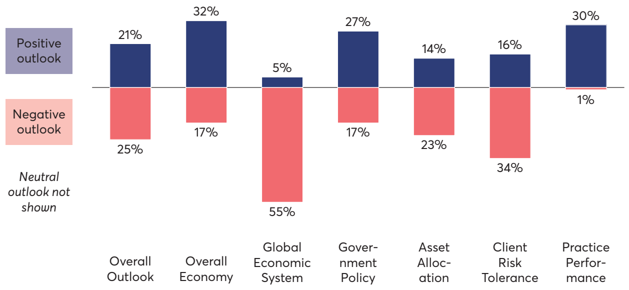
Again and again, wealth managers said politics was spooking their clients. Out of 397 advisors, 67 mentioned the word "election" — though some doubted it would affect their clients' portfolios.

"I have to explain over and over that politics don't affect the market nearly as much as they think they do," one planner said. Others believed it was a legitimate concern.

"The election is going to make markets volatile for the remainder of the year," another advisor said.

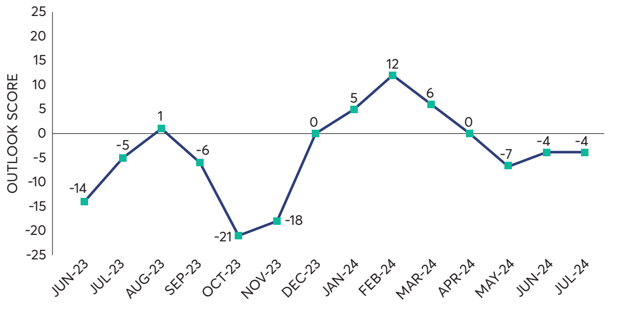
Other sources of anxiety included inflation, business slowdowns and geopolitical concerns — including this summer's elections in France.

JULY OUTLOOK COMPONENTS



Source: Arizent Retirement Advisor Confidence Outlook Survey July 2024
Base: 211 Financial Advisors

RETIREMENT ADVISOR CONFIDENCE OUTLOOK



Source: Arizent Retirement Advisor Confidence Outlook Survey June 2023 - July 2024

"Seems like the far right is making headway in areas not seen in 100 years, which will have impacts around the world," one planner said.

The Retirement Advisor Confidence Outlook is created by the editors of Financial Planning and is based on a monthly survey of about 300 advisors. Visit financial-planning.com for more results.

The result of all this uncertainty was plummeting confidence in certain areas. Client risk tolerance sank to a score of minus-18 in July, down from minus-8 in June. And asset allocation — a score measuring the bullishness of client portfolios — fell to minus-9, down from minus-3 in June.

Other scores stayed about the same. Faith in the global economic system remained in its usual doldrums, holding steady at minus-49. And confidence in the overall economy inched up by just one point, from 14 in June to 15 in July. Similarly, practice performance ticked upward from 28 to 29.

Meanwhile, confidence surged in the unlikeliest of places: The score for government policy jumped from minus-4 in June to 9 in July.

This puzzling result could be due to a number of reasons. One explanation: The Federal Reserve is increasingly expected to start cutting interest rates soon. Many planners said this would benefit their clients' portfolios, particularly those with large holdings in bonds.

"We are looking to the Federal Reserve with regard to interest rates," one advisor said. "Once cuts start, we believe that may be a positive catalyst for fixed income."

Whatever the reason, confidence in Uncle Sam showed marked improvement. Twenty-seven percent of advisors said they had a positive outlook on government policy, up from 15% in the previous month.

This strange combination — rising confidence in the government, coupled with rising anxiety — may also reflect another dichotomy: Clients may fret over the election, but many of their advisors believe its long-term effects will be minimal.

"I have members of both political parties who are concerned about their finances if the other side wins," one planner said. "Financial and market performance don't worry me though. I am agnostic toward how either side winning will affect the markets." **FP**

Nathan Place *is a retirement reporter with Financial Planning.*

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ADOBE STOCK

Teaming comes with advantages for advisors

Working in teams can boost productivity, ease succession and allow advisors to move upmarket, research suggests.

By Sabrina Ticer-Wurr

In the wealth management industry, several cooks in the kitchen might actually improve the broth.

Wealth management heavyweight Osaic engaged research firm Cerulli Associates to expand its expertise in the "untapped area" of teaming, according to Dimple Shah, head of corporate strategy at Osaic. Cerulli talked to over 20 advising teams in the first quarter of 2024 and analyzed over 2,000 responses to its annual advisor research collaborative survey.

The resulting study found that working with others in teams often provides more strategic advantages than working as an individual.

"I think overall, advisor teaming has become prevalent across the industry," said senior wealth analyst Stephen Caruso of Cerulli. "There's an increasing opportunity for advisors to work together, and with working together it begets more solutions."

The study found that although more than half of financial advisors work in solo practices, advisors who work on teams brought in an average of $13 million more in net asset flows than individual advisors. And in team-based practices, each advisor averaged more assets under management than at solo practices.

"As an advisor, trying to do everything for your client — planning, paperwork, account maintenance, trading — is not the most efficient way of providing services to clients and limits the advisor's number of clients they can work with relative to a team," said Daniel Lash, partner and financial advisor at the Vienna, Virginia-based VLP Financial Advisors.

Working on a team allows individual advisors to become more specialized in an area of expertise. The study found that over a third of team-based practices have specialized staff, compared to one-tenth of solo advisors.

Scott Bishop, partner and managing director at Houston-based Presidio Wealth Partners, said he believes the advantages "significantly" outweigh any drawbacks. "You can have a multidisciplinary team. … You can add the pieces that are not your strengths to be able to better serve clients," he said.

Halbert Hargrove, a Long Beach, California-based wealth advisory and fiduciary investment firm, employs a team-based horizontal organization structure with a team of CFPs, client service managers and associates.

"Everyone has a voice," said Kelli Kiemle, Halbert Hargrove's managing director of growth and client experience. "Also, none of the staff or advisors is managed by anyone on their individual team. … That structure has really helped as well."

The Cerulli study found that having more advisors allows for better scalability — firms can generate more client relationships, referrals and opportunities for senior advisors to engage in work that is most valuable to the practice.

"So they're really freed up to have high-level conversations with our clients and with their prospects. And all of that day-to-day maintenance and the paperwork type things, it's all done by the team," said Kiemle.

Integrating team-style organization also allows firms to better develop junior talent and ensure that retiring advisors have well-trained successors, according to the report. As the wealth management industry struggles to recruit younger advisors and replace those who pass away or retire, teams could offer one solution to succession problems.

"If I was a sole practitioner, how could I truly answer my client's question, 'Who will take care of my planning if you retire or if something happens to you?'" Bishop said. "With a team, I can tell them. … When I decide to retire, I want my team there to manage your financial planning and mine."

Caruso pointed to the ability to develop talent as one component that will affect the future of the financial services industry.

"It's been very important in our research over the last few years," he said. "How do you encourage the growth of next-generation advisors or folks that are coming to the industry for the very first time?"

Kiemle said that at Halbert Hargrove, everyone on a team is familiar with the clients they work with.

"There's that continuity of more than one person knows what's going on in their relationship, more than one person can service them," Kiemle said. "If something were to happen, someone else could step in and they don't have to start over from scratch."

To team or not to team?

However, teaming is not a strategy that works for everyone, according to Louis Diamond, president and financial advisor recruiter at Diamond Consultants.

"I think clearly this study and others have shown that there are quantifiable benefits," he said. "But the cool thing about being a financial advisor is that they get to build the business the way that they want to, and if they feel like they're constrained on how that works, then they have options to go independent and do it truly on their own."

Noah Damsky of Los Angeles-based Marina Wealth Advisors is the sole advisor of his practice and works on a small team with only one associate. "We're nimble, responsive and can change course quickly," he said via email. "At big organizations, changing something as small as a piece of software can take years to work its way through the system."

Edward Jones announced that by the end of 2023, all its advisors would have the option to share office space, and clients, with other advisors at the firm. In 2022, Andy Sieg, then head of Merrill Lynch's wealth unit and now head of wealth at Citi, predicted that by 2030, all of its advisors would work on teams.

"The 'Edward Joneses' of the world have been reluctant to go the team way, but I think they've seen that they've lost advisors because they didn't allow teaming, and I think they've seen that in their pilot programs, that when advisors do work in teams that it yields better results," Diamond said.

Diamond also noted that introducing teams makes it harder for advisors to leave a practice, saying that teams can be "stickier" than individual advisors.

For solo practitioners considering a team-based structure, Kiemle said that although it can be a "hard sell" to those unfamiliar with working on a team, the transition is worthwhile.

"We have workflows across the firm; everything is structured in a way that's supposed to be efficient, and it's supposed to allow everyone on the team to have open communication and to know the status of what's going on," she said.

Osaic launched a "Teams Advisor Council" last year. It is approaching teaming through a combination of education and training, holistic wealth management strategy, simplified business operations and management, community building and human capital consulting for its advisors, Shah said.

"Last year, we launched our new financial planning and high net worth team to help advisors with complex client needs to better empower better financial planning in a team-based environment and are exploring ways of optimizing our financial planning offerings to implement best practices across Osaic," Shah said.

Diamond noted teaming is "not one-size-fits-all"; forming a team could look like selling or merging a business or offering a fee-for-service model where a solo advisor pays commission to a firm.

"So you have a lot of different ways that teaming could occur," he said. "It doesn't always have to be: 'We're one brand and we're doing everything together.'" **FP**

Sabrina Ticer-Wurr *is a reporter for Financial Planning.*

TOBIAS SALINGER

Morningstar's Danielle Labotka and Samantha Lamas spoke at the firm's 2024 U.S. investment conference in Chicago.

Nonfinancial reasons clients hire, keep or fire advisors

Emotional or personal motivations can be just as important (or more) than a need for "functional" professional services.

By Tobias Salinger

Traditional motives like investing, security and value remain important, but emotional reasons for hiring, keeping or firing a financial advisor are also pivotal for clients, a new study found.

In an open-ended survey, more than 3,000 investors were asked to explain their grounds for entering, maintaining or leaving a relationship with an advisor. Morningstar used the answers to examine the underpinnings of a profession practitioners frequently describe as a "relationship business."

The results of the report released in June by the research, technology and asset management firm offered insight into how planning has moved beyond what the study described as "functional" services and into "human-centric" ones.

The top-cited "emotional" category for hiring or retaining an advisor, "comfort handling finances," came in near the bottom of the justifications for firing them, while the most popular "financial" rationale for tapping a planner, "specific financial needs," was near or at the bottom for keeping or terminating the relationship.

The findings suggest there has been "a fundamental shift in the industry" reflecting a "growing desire for human-centric advice" that is "good news for advisors," according to the report by Morningstar Global Head of Behavioral Finance Ryan Murphy, Senior Behavioral Scientist Samantha Lamas and Behavioral Scientist Danielle Labotka.

> **One reason cited for firing an advisor: "They were not giving us much advice and still charging us a lot of fees."**

Lamas and Labotka discussed the study in a panel in late June at the Morningstar Investment Conference in Chicago.

"Text data may not be fun to work with on the research side, but it is fruitful," Lamas said. "What we saw was a pretty nuanced story that gives advisors a blueprint on how to work with clients at each of these inflection points."

Morningstar researchers sought to home in on a client's actual basis for these decisions, as opposed to putting words in their mouths or in situations that may blur their thinking because "we as humans have this desire to want to be viewed favorably," Labotka said.

"The problem with this new model is it's far less clear at different stages of the advisor-client life cycle what clients want," she said. "We want to hear it in their own words, and we want to hear it in an anonymous format where they can say whatever they want to say."

This change in the profession "may require advisors to adapt their practices" if they're not already conversant in areas such as the "behavioral pitfalls" of investing, advice focused on long-term goals or methods of providing "peace of mind about finances," the report said.

Morningstar's study followed other research from the company tracking how much investors lose each year based on the mistaken timing of their transactions and Vanguard's often-referenced report quantifying the large impact of advisors' behavioral coaching of clients.

Here are the most frequently cited reasons for hiring, keeping or firing a financial advisor, along with a sample quotation from selected anonymous investors' responses:

Hiring

32%: Discomfort handling finances. ("I feel more secure having a different view of my finances.")

32%: Specific financial need. ("To see if we were on track for retirement.")

17%: Behavioral coaching. ("I lack discipline to stay invested when the market is erratic.")

12%: Referrals. ("They have good reviews from close family and friends.")

10%: Relationship quality. ("I found an advisor who understood me and I found to be a good fit.")

Retaining

37%: Discomfort handling finances. ("Money makes me nervous.")

22%: Advice quality. ("The advisor has helped me consider a variety of things…")

16%: Behavioral coaching ("A long-term perspective…")

12%: Investment returns. ("He makes our tiny contribution much larger with his money magic.")

9%: Specific financial need. ("As I get closer to retirement, I'll want to be even more sure…")

Firing

32%: Advice quality. ("I felt that I was putting myself more at risk than I was comfortable with.")

21%: Relationship quality. ("He did not care about us — only wanted our money.")

17%: Cost of service. ("They were not giving us much advice and still charging us a lot of fees.")

11%: Investment returns. ("The types of offerings were below to average mutual funds…")

10%: Comfort handling finances. ("Preferred mostly to self-direct.")

> **"You have to help clients dig out their needs and expectations, and the only way you can do that is through meaningful conversations."**
> **— Samantha Lamas**

The numbers speak to the need for frequent discussions with clients identifying their goals and tracking their progress toward them, according to Lamas and Labotka. Those talks should begin early in the relationship with an emphasis on rooting out their most meaningful aspirations and tying their financial plans to them directly, Labotka said.

"You really need to slow your clients down when you're having those discussions about their financial goals," she said. "We as humans are really good at thinking fast, and sometimes we're too good at it. Sometimes when we have these biases, it can cause us to make mistakes, especially when it comes to talking about our goals."

Morningstar and other firms provide resources that give advisors tools such as exercises to help them guide clients in finding their goals free of distorting factors such as "social desirability bias," Lamas noted.

Those, in turn, can foster more manageable purchases such as buying a house by a lake in the Midwest rather than one in the Hamptons and means for advisors to more "adequately communicate your value" to the client, she said.

"You have to help clients dig out their needs and expectations, and the only way you can do that is through meaningful conversations," Lamas said.

"It may seem out of place in a financial conversation, but it's really where financial planning is going. … They don't understand what advisors do. You're kind of a black box to clients, and you really have to pull back the curtain." **FP**

Tobias Salinger *is the chief correspondent of Financial Planning. Follow him on Twitter at @TobySalFP.*

JHANSEN2/ADOBE STOCK

How to work with clients across the political spectrum

Instead of shying away from fraught interactions, financial advisors say it's essential to face them directly.

By Rob Burgess

With the presidential election season heating up, political divisions running through the country are becoming more pronounced.

Ideological and political differences could spur some awkward conversations between clients and their financial advisors. But instead of shying away from these potentially fraught interactions, financial advisors say it's important to face them head-on.

Kashif A. Ahmed, founder and president of American Private Wealth in Bedford, Massachusetts, said that instead of avoiding political disagreements, he encourages discussion.

"I tell clients and prospects that my office is a place where anything and everything can be discussed, all the taboo subjects," Ahmed said. "I have clients whose politics are polar opposites of mine, and yet we relish having a debate."

"If a client does not wish to discuss politics, that's fine, too," he said. "But I will say, most if not all of my clients reach out to discuss politics because they know I am well-versed and like to explain the context behind headlines."

Remind clients of goals

Jeff H. Farrar, co-founder of Procyon Partners in Lenoir City, Tennessee, said he views his job as advising clients on what they think might happen and how the markets will react, "not what I personally want to happen."

"Be rational when they are emotional," he said. Farrar said sometimes he will have calls with different clients on the same day who say if one candidate or another becomes president, the market will crash.

"They are both talking about the other [candidate]," he said. "Politicians can make policy and add headwinds or tailwinds to sectors, but any CEO worthy of his salt will try and manage their company regardless of who is currently in office."

John R. Power, a CFP with Power Plans in Walpole, Massachusetts, said he does not take potential clients' political beliefs into account before deciding whether or not to work with them.

"I consider financial planning to be apolitical, based on facts," he said.

When politics does enter into the conversation, Power said he tries to steer clients

Continued on page 13

Morgan Stanley
LPL Financial

JHVEPHOTO/ADOBE STOCK; JUSTIN MOORE SCOTT

Recruiting loan balances and big wealth managers

Firms that haven't been afraid of generous recruiting offers have shown the greatest growth in recent years.

By Dan Shaw

How much value is there to industry recruiting?

Some of the biggest firms in financial planning apparently think the answer is: quite a lot. For evidence, look no further than the recruiting loan balances wealth managers report in annual filings to the SEC.

These loans — technically promissory notes — usually come in the form of an upfront payment that advisors receive upon joining a new firm. The balances typically "vest," or are forgiven, on a set schedule anywhere between seven and 12 years.

As long as newly recruited advisors stick around for the duration, there's no need to pay anything back. But if they leave early, they can owe amounts running into the millions — a powerful incentive to think twice before accepting another recruiting offer.

The past few years have seen some industry leaders take their balances to near-record highs. The clear standout has been LPL Financial. In its zeal to attract talented advisors and teams, the independent broker-dealer saw its balance for outstanding recruiting loans increase more than threefold from just under $400 million in 2018 to more than $1.4 billion last year.

On Wall Street, Morgan Stanley has been the biggest player. Despite its former CEO James Gorman's declaration that "the recruiting game is over," Morgan Stanley increased its loan balance by 27% to just over $4.3 billion from 2018 to 2023.

Jason Diamond, executive vice president at recruiting firm Diamond Consultants, said there's no real reason why these balances can't keep going up. He noted that the loan amounts advisors receive are usually based on their track records of generating revenue.

Often they're calculated as a multiple — two or three or even four times — of a wealth manager's past 12 months of income generation. Provided there isn't a steep drop-off in performance, and the advisor sticks around, the loans pay for themselves.

"These firms should be making enough revenue that by the fourth or the fifth year on the loan they are breaking even on the loan balance," Diamond said.

Philip Waxelbaum, an industry recruiter and founder of Masada Consulting, said some industry executives have taken deliberate steps to lower their balances amid worries that the numbers were growing too large or the deals were being poorly managed. But a loan number by itself isn't much of an indicator of whether a firm has become overburdened.

"As long as margins are growing and revenue is increasing, it's not a problem, right?" Waxelbaum said. "But if revenue is not increasing and margins are narrowing, it's a big problem."

Though the connection between loan balances and financial performance isn't perfectly clear, there is at least some correlation.

LPL, for instance, saw its revenue increase by nearly 94% to $10 billion from 2018 to 2023. And Morgan Stanley experienced a 52% increase in its wealth management revenue in the same period, taking the total to $26.3 billion.

A spokesperson for LPL said, "LPL's recruiting efforts are fueled by a winning value proposition which continues to attract advisors and institutions seeking a partner for their businesses. LPL is well positioned to make strategic investments, including transition assistance to deliver value to our clients and drive long-term growth."

None of the other firms contacted for this article provided a comment.

Meanwhile, wealth managers with lower or declining recruiting loan balances have seen much more stagnant revenue growth. Bank of America's Merrill, for instance, publicly backed away from recruitment as its primary plan for growth after its loan balance swelled to $1.1 billion in 2017. Its outstanding loans fell a precipitous 75% over the next five years to roughly $271 million.

Revenue production for both Merrill Wealth Management and Bank of America's private bank increased by only 17% to $21.1 billion in those same years. Merrill has since announced a return to recruiting. But it has yet to report its loan balance for 2023, making it hard to gauge just how far its renewed commitment extends.

Wells Fargo has likewise witnessed similar stagnation even while still professing a strong commitment to recruitment. Wells, perhaps struggling to attract teams while still coming out of the shadow of past scandals, saw its loan balance decline by 8% to just over $2.2 billion from 2018 to 2023. Its wealth management revenues were down 10% to $14.7 billion in the same period.

Waxelbaum said he thinks Wells has repaired its reputation enough to see a rebound. "That cloud has parted, and they're recruiting like machines right now," he said. "If we could look at Wells as far out as two years from now or three years from now, I would expect them to be considerably larger than they are today."

For firms that have struggled with recruiting, Diamond said he suspects the hit to revenue would be far more apparent if the economy weren't so strong. With most firms collecting fees based on the amount of assets they have under management, recent bull markets have done much to buoy balance sheets.

Regardless, Diamond said, the connection between recruiting and growth is clear. In an industry that struggles to attract young newcomers, recruiting is one of the main ways firms still have to grow.

"If you're not recruiting, you're doing worse than standing still," he said. "People are leaving left and right. They are changing careers. They're retiring. They're changing firms. They're going independent. There are so many reasons advisors choose to leave a firm."

Samantha Sferas, the chief operating officer at the Terrana Group recruiting firm, said she thinks firms' recruiting loan balances rarely present a hurdle to executives who have set their eyes on a high-quality advisor or team.

"If it's a great book of business and a great practice, I don't think it's any barrier," Sferas said.

Not necessarily a good proxy

Offering good deals may be essential to a firm's ability to attract quality advisors and teams. But that doesn't necessarily mean large loan balances are a proxy for recruiting success.

For one, noted Andrew Tasnady, an industry compensation consultant and the founder of Tasnady & Associates, balance figures don't shed light on whether firms are actually adding advisors or simply replacing the ones who have left.

With many firms no longer reporting headcounts, it's hard to tell which are swimming ahead and which are simply treading water. Tasnady said he suspects Wells Fargo, which stopped reporting its advisor numbers in 2023, has been mostly filling vacancies left by people who've decamped for other firms.

"They probably have a higher [loan balance] now because of the number of years that they had higher attrition," Tasnady said. "And maybe that's subsided. And it could be also a good sign because it shows people the company is willing to invest in the long-term future."

Among firms that still do report advisor numbers, there are signs higher loan balances can boost headcounts. UBS, for instance, has seen a decline in both figures.

Its loan balance declined 24% to $1.75 billion from 2018 to 2023. Meanwhile, its advisor headcount for its Americas division fell to 6,117 from 6,850 in the same period.

"UBS, you know, was very high for a number of years, and they stepped back from recruiting," Tasnady said. "You can see the number go down. That was a conscious effort."

Besides attrition, there's another reason why loan balances are an imperfect proxy for firms' recruiting successes. Waxelbaum noted that recruitment offers vary greatly from one deal to the next, making it impossible to tell how many advisors a firm had to bring on to reach a certain balance number.

With wirehouses, the upfront payments often range between 300% and 400% of an advisor's past year's revenue. The amounts tend to vary depending on the perceived quality of an advisor's business, Waxelbaum said.

A wealth manager who mainly generates fees on assets under management is generally going to be able to command a higher offer than someone who relies mostly on commissions, he said.

The offers also vary among the different business models in the wealth management business. Raymond James, whose loan balance rose 26% to $1.17 billion from 2018 to 2023, is the standout among its non-Wall Street firms in that its deals have gone closer to those offered by the wirehouses. Regional competitors like Stifel, whose balance rose 67% to $683 million between 2018 and 2023, tend to offer around 200% of the past year's revenue or less.

"And whenever you look at these loan balances, you're looking at anywhere from a seven- to a 10-year average," Waxelbaum said. "So the chart doesn't go parabolic ever. It's just a trend line. It's just: Is the trend line accelerating or decelerating?"

They're only going up

Jodi Papike, CEO of the advisor placement firm Cross-Search, said she expects recruiting deals to keep growing, in part, she said, because of the amounts firms owned by private equity are able to splash around.

Advisors who might have formerly been on the fence about switching firms now find themselves presented with offers they can't refuse. "It has kept recruiting at a really high pace over the past few years," Papike said.

The higher loan amounts have not only led to executives insisting that new recruits stick around for a greater number of years before the amounts are forgiven; they've also given firms additional incentive to seek clawbacks from advisors who do leave early.

When disputes over promissory notes end up before industry arbitration panels, the amounts that have to be repaid now often include interest, Papike noted. For most firms, she said, the real question about recruitment loans is about how long they can go until they recoup money they had to lay out to bring an advisor on. "You're not going to make any revenue on a new advisor for several years," she said. "It's up to the individual firm to decide if that makes sense or not."

Diamond said he thinks plenty firms would be happy to make more recruiting loans if they only could. If anything is holding balances back now, it's not fear that the burden is growing too heavy. "If they see good deals, they are going to take them 10 out of 10 times," he said. **FP**

Dan Shaw *is a reporter for Financial Planning.*

Continued from page 10

back to a shared reality while attempting to accommodate their concerns when possible.

"I wouldn't be able to figure out how to adjust a portfolio to comply with political perspectives and generally advise against that as inappropriate," he said. "We try to keep clients focused on the longer term and their goals, not some shorter-term issue. I have never 'fired' a client for their politics and that would be unlikely. I am more apt to fire a client because they aren't following recommendations and are therefore wasting my valuable time and their money."

Find common ground

Ross Dugas, a former engineer and the founder and financial advisor at Scientific Financial in Pearland, Texas, said he tries to remind clients that whoever occupies the White House tends to make little impact on the stock market, especially when other factors are much more consequential.

"The market is much more impacted by major events such as 9/11, bubbles, COVID-19 and the emergence of the internet, AI and other technologies," he said. "We even have graphics to reinforce these points and steer the conversation away from divisive political issues."

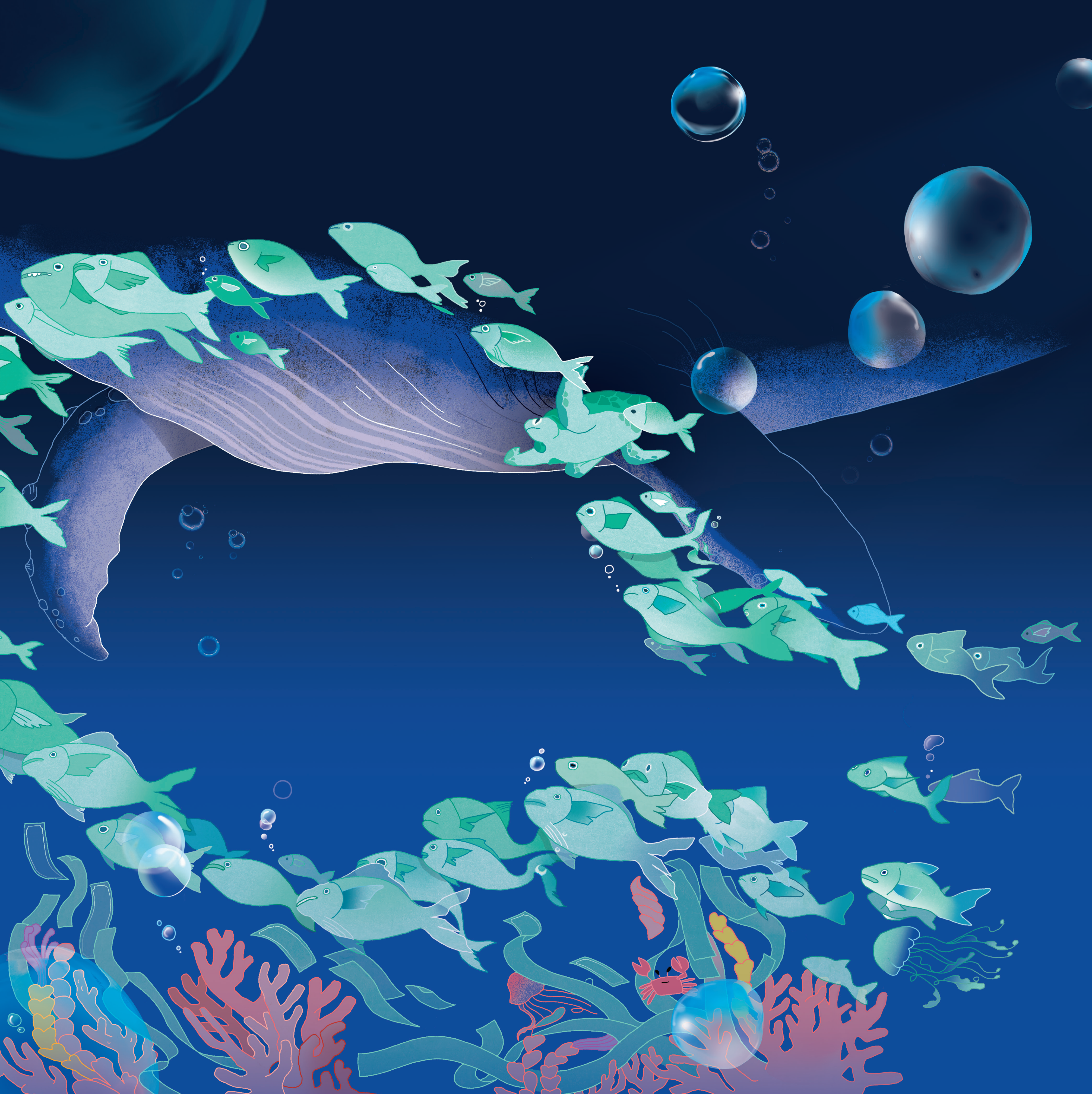
Ann M. Covington, a CFP with CovingtonAlsina in Annapolis, Maryland, said she believes she has more in common with her clients than not, even those who she might be opposed to politically.

"Most Americans want the same things, like good schools, safe roads, clear air and equal justice under the law," she said. "The big difference is how we look to accomplish those goals. When appropriate, I educate on policy implications. How does a specific proposed bill, regulation or legislation impact them or the greater economy? Otherwise, I look for areas where we agree."

Though she welcomes clients with differing political views, Covington said she had one instance where a potential client worked for an organization she deeply disagreed with. But even that didn't stop her from working with them.

"Rather than reject the client, I donated their planning fee to another nonprofit," she said. "I could not morally accept what I felt was blood money. Without open dialogue, though, we can't ever expect change or a civil society, which is why I still worked with the client." **FP**

Rob Burgess *is a reporter for Financial Planning.*



IBD ELITE 2024: THE MYTH OF BIG VERSUS SMALL

The largest firms enjoy distinct advantages, to be sure. But many small and midsize independent wealth management firms have an edge, too.

By Tobias Salinger

In a time of rapid consolidation and accelerating dominance by the giants of wealth management's independent brokerage channel, the so-called small or midsize firms seem quaint. When growing colossi are gobbling up fauna, nobody wants to be the tiny fish in the sea.

But the riches of the ocean of an estimated $45 trillion in industry client assets explain why many of those littler swimmers are eating quite well. In fact, one of the larger examples of them, Kestra Holdings, presents an "ecosystem that provides a great solution for an independent wealth practice on all stages of their customer journey" across a brokerage, several registered investment advisory firms, an M&A and succession business, an asset management and research arm, and a trust company, noted Kestra Financial President Stephen Langlois.

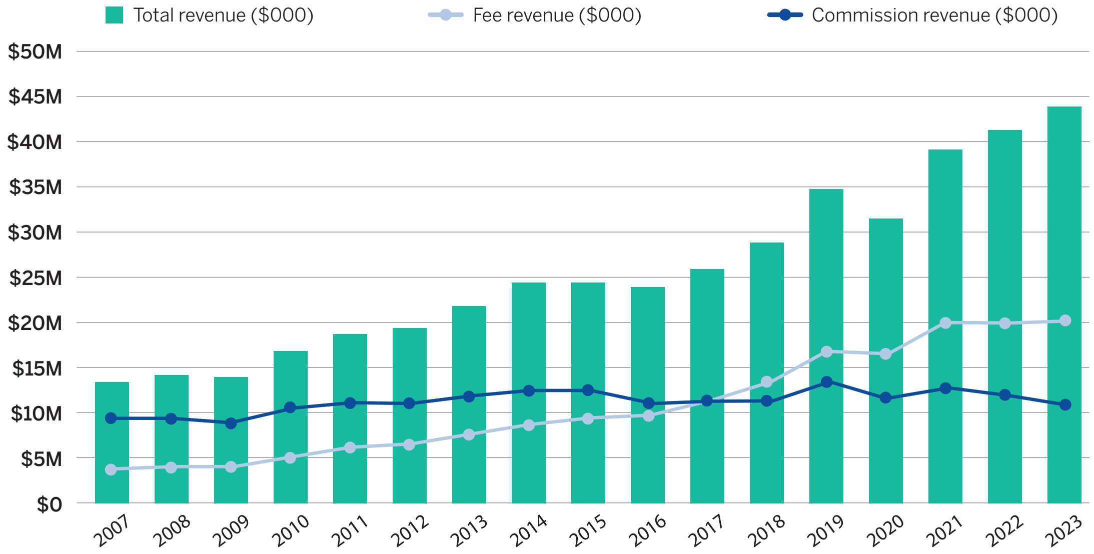
"I don't care for the term 'midsize,' but that's probably where we are," he said. "We have the economics that allow us to provide the service, the support, the technology that really helps these advisors and enables them to be successful."

Austin, Texas-based Kestra illuminates one of the biggest myths about the fragmentation between big and small independent brokerages, and wealth management firms in general: that any but the largest companies are likely to go extinct. And since many of those firms are managing billions of dollars, they're not really all that miniature.

For the 39th annual edition of the IBD Elite study of the largest independent brokerages in wealth management, Financial Planning spoke with five experts who pointed out that the small and midsize firms do have a place in a highly competitive channel. Those companies are also

IBD Elite 2024: The myth of big versus small

Annual revenue in the independent brokerage channel of wealth management surged 6% in 2023 to $43.6B



Source: Company data, as reported to FP's IBD Elite study

evolving to meet the demands of financial advisors and their clients, in some ways more quickly and effectively than the largest conglomerates, and the giants themselves can cite ways that they curate a small-firm experience to advisory teams that have their own RIA or join a branch.

RITA ROBBINS

Rita Robbins, president of New York-based independent wealth management network Affiliated Advisors.

"I don't think it's quite as simplistic as large and small," said Rita Robbins of New York-based Affiliated Advisors, which has around 100 advisors managing nearly $5 billion in client assets as an office of supervisory jurisdiction that uses the giant firm Osaic as its brokerage. "It's, 'How do I get the resources and the pricing power? How do I get the resources of a large firm but still have highly personalized help, assistance, guidance? How do I tap into everything that's available to me?' It's really challenging to just be on the other side of an 800 number at times."

By the numbers

The annual revenue reported by firms to FP as part of the survey shows the channel's massive expansion and consolidation, as well as the enduring presence of small and midsize firms. For starters, the channel's yearly business has more than tripled between 2007 and 2023 to $43.64 billion — which is more than three times as much revenue as the entire National Football League generated last year.

This segment of wealth management is turning more top-heavy: Over that span, the share of that revenue stemming from the 10 largest firms each year — a group that, today, includes LPL Financial, Ameriprise, Osaic, Cetera Financial Group, Raymond James Financial Services, Northwestern Mutual and Commonwealth Financial Network — has enlarged to 88% from only 54%.

A check of the top 40 firms in the rankings just 10 years earlier, in 2013, reveals that at least 20 independent brokerages, or half of that group a decade ago, have merged into larger firms or otherwise switched their FINRA-registered side of the business to that of a larger player. A shining example: Last year's group of the top 15 firms included two, Securian Financial Services and Avantax, that were acquired by Cetera; a third, Atria Wealth Solutions, is now folding into LPL; and a fourth, Lincoln Financial Network, was rolled into Osaic earlier this year. Looking back 10 or 20 years on the names of firms in the independent brokerage channel can often feel like reading hieroglyphics in an ancient cave.

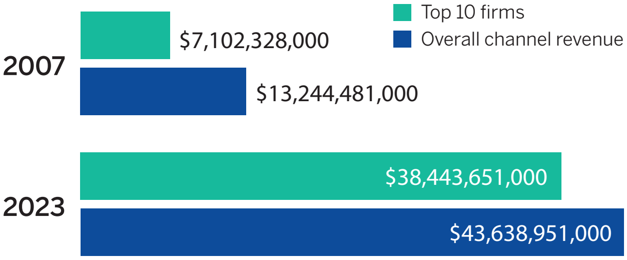
Yet the firms outside that list of the top 10 — companies such as Kestra, Lincoln Investment Planning, Independent Financial Group, United Planners Financial Services of America, PlanMember Securities — racked up $5.2 billion in revenue last year among them. Three out of that group of small and midsize firms — Arkadios Capital, Level Four Financial, LaSalle St. Securities — expanded by so much in 2023 that they were in the top 10 firms in revenue growth last year. And other smaller players — either among independent brokerages, hybrid wealth management firms or RIAs — are doing just fine vying with the giants for advisors and clients.

Atlanta-based RIA Advisory Services Network has picked up about $5 billion in client assets in the past five years, while its footprint of advisors using its advisor platform enlarged to 220. They maintain the option of affiliating their brokerage business with an external firm, Calton & Associates.

The team, led by co-founder Tom Prescott, doesn't get fazed when reading stats such as the metric in FINRA's latest snapshot report noting that 82% of the industry's registered representatives work for firms with at least 500 reps, he said.

"At $8 billion, we are still small compared to the big firms," Prescott said. "Anything that's available, for the most part, at a big firm is available at a small firm."

The top 10 firms' share of the independent brokerage channel's annual revenue has grown to nearly 90% from a little more than half in 2007



Source: Company data, as reported to FP's IBD Elite study

Going it alone?

Companies like Arkadios, Level Four and Tampa, Florida-based Independent Financial Partners have completed a more challenging example of a so-called breakaway move from bigger firms that has meant not only using standalone RIAs but operating their own independent brokerages. The firms are proving their appeal, with some advisors opting for the smaller players in recent years. Arkadios and Level Four routinely unveil incoming teams fleeing from big firms.

CEO Bill Hamm led Independent Financial away from LPL in 2019. The high-profile exit resulted initially in the loss of hundreds of advisors moving to other LPL branches, yet ultimately has stabilized into a group of 260 advisors with $14 billion in client assets, he noted.

The firm is now climbing the ranks as Hamm's family-owned-and-operated company pitches advisors on the ease of getting their problems solved via a quick call to the corporate headquarters. And it also pitches an economic case. The firm's lower offers of recruitment transition assistance compared to the giants' bring smaller taxable income and greater value for the long term because Independent Financial doesn't charge a fee for using outside custodians, he said.

Referring to analyst notes several years ago that forecast the supposedly negative impact of the loss of Independent Financial on LPL's profits, Hamm noted that the share price of his publicly traded former firm has soared by more than 170% in the past five years and quipped, "So much for our leaving hitting the bottom line." LPL and the other giants have "been after our folks for the last five years" with minimal disruption to the firm's business, he said.

"They're good for certain advisors; we're good for certain advisors," Hamm said. "When I talk about LPL, I'm basically talking about all the big boys, because they're all doing the same thing."

JODIE PAPIKE

Jodie Papike, CEO of independent financial advisor and executive placement firm Cross-Search.

The giants do carry significant advantages, though, based on the resources that they can deploy toward M&A, recruiting bonuses, technology and other services, according to recruiter Jodie Papike, CEO of independent advisor and executive placement firm Cross-Search. "Without that level of capital, you can't grow the way the giants are growing," she said.

At the same time, the smaller players can remain competitive through active recruiting outreach, access to different RIAs or compensation structures and certain products, and any number of factors that may emerge "when you get into the nooks and crannies and puzzles" of the business, Papike said. Bigger firms are "not going to bend off their entire model to satisfy that advisor, whereas the smaller or midsize firms can be more nimble," she added.

To be sure, those firms are confronting challenges relating to capital and the rising cost in areas such as technology and compliance that are coinciding with ample private equity investment in the industry at ever-higher valuations that can lead to offers that are too good to refuse.

Kestra spun off one of its subsidiaries, a Rockville, Maryland-based brokerage and RIA named Grove Point Financial, in a deal with Atria last year after Grove Point "was just not a strategic fit for us," Langlois said. The company doesn't publicly discuss any potential suitors approaching Kestra or its capital backer, global private equity firm Warburg Pincus, Langlois said, and he declined to comment in an interview when asked if Kestra and its 1,700 advisors with $117 billion in client assets will ever fold into a larger firm someday.

Many smaller firms are "one bad regulatory event from going out of business," which is "the reason you see a lot of movement" in the ranks of midsize firms in recent years, Langlois said.

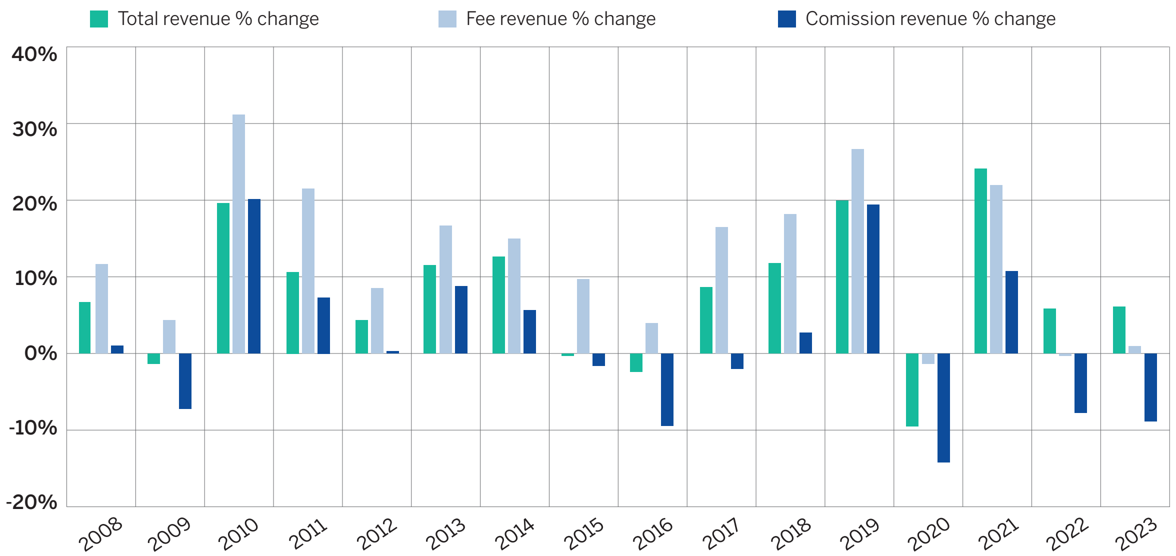
"We love the position that we're in," he said. "This is a complicated business. It has a lot of risk, and it gets more expensive to run it every single day."

The subtleties between 'big' and 'small'

Simultaneously, the branches of the bigger firms are arguing they can help advisors navigate the complex industry better while providing the same sense of community, familiarity and flexibility of smaller firms.

Through its resources combined with those available through Osaic, Affiliated has completed 20 M&A transactions comprising more than half a billion dollars in client assets over the past four years, launched many

Percent change in overall, fee-based and commission revenue among independent brokerages, 2008-2023



Source: Company data, as reported to FP's IBD Elite study

outsourced services for its advisors such as marketing, certified public accountants and event planning, and ensured there is "constant communication and peer-to-peer learning with our advisors," Robbins said.

"Everything you could possibly think of, we've already vetted," she said. "It's a really large firm, but we distill it down into a really individual experience for our advisors."

The smaller firms counter that leaving the big platforms can offer advisors a quicker turnaround on any requests to the corporate office compared to the larger companies, where "your input isn't asked for or really wanted in a lot of cases, and I know that," Hamm said.

Independent Financial "may be a small firm, but we have big partners" in the form of the custodial divisions of Charles Schwab, Fidelity Investments and BNY Pershing, he said. Publicly traded and private equity-backed firms must look out for their investors.

"Their first fiduciary responsibility is to their shareholders or to their owners, and sometimes that clashes with the needs of advisors and clients," Hamm added.

Furthermore, the ongoing move toward RIAs and away from commissionable brokerage business means that "the broker-dealer role becomes less important," according to Prescott of Advisory Services. Since advisors "look at their clients as their clients," more of them are seeing that the largest acquirers in the industry are getting bigger and posing the risk that one wealth management company could be sold out from under them without "passing that economy of scale" down to their advisory teams, he said.

"We're all in this business to be profitable, but at the end of the day, who's serving whom?" Prescott said. "The more nimble smaller or medium-size firms think along those same terms, whereas the larger firms do not."

Others point out that the smaller players often have founders that are approaching retirement, and the need for a succession plan from an inevitable private equity or publicly traded investor. Some advisors want the scale, resources and economics of the biggest firms, while the smaller ones are "doing incredibly well recruiting-wise" by catering to a different group, Papike said.

"There has to be a place for smaller and midsize firms. Smaller and midsize firms can offer something that the large, dominant players can't, and that is flexibility and intimacy," she said. "There are plenty of advisors that have a business model that, for whatever reason, is not a good fit for a big firm." **FP**

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** *As reported by San Diego Business Journal, "Fastest-Growing Private Companies - Large Category," 2022, based on total revenue.*

IBD Elite 2024: The myth of big versus small

TOTAL REVENUES

			TOTAL REVENUE		COMMISSION REVENUE		FEE REVENUE		OTHER REVENUE	
2024 Rank	2023 Rank	COMPANY NAME	$000	% CHANGE	$000	% CHANGE	$000	% CHANGE	$000	% CHANGE
1	1	LPL Financial	10,052,848	16.9	2,552,623	9.7	4,135,681	6.7	3,364,544	40.2
2	2	Ameriprise Financial	6,448,448	4.1	1,342,547	6.8	4,098,246	2.9	1,007,656	5.6
3	3	Osaic	4,425,161	4.6	1,551,176	(4.0)	2,063,472	(2.0)	810,514	58.8
4	5	Cetera and Avantax	3,949,823	18.0	818,540	12.4	1,792,403	11.8	1,338,879	31.9
5	4	Raymond James Financial Services	3,915,874	9.1	NA	NA	NA	NA	NA	NA
6	6	Northwestern Mutual	2,501,262	13.5	448,509	(3.9)	1,709,405	11.5	343,348	68.8
7	7	Commonwealth Financial Network	2,286,268	10.2	260,269	3.1	1,611,256	5.2	414,743	42.9
8	8	MML Investors Services	1,725,400	9.6	784,100	4.6	935,700	14.5	5,600	(26.3)
9	9	Cambridge Investment Research	1,587,566	8.2	369,618	2.5	854,326	2.5	363,623	33.2
10	10	Equitable Advisors	1,551,000	7.3	858,000	(3.7)	475,000	2.8	217,000	130.9
11	11	Atria Wealth Solutions*	766,300	4.1	NA	NA	NA	NA	NA	NA
12	12	Kestra Financial	719,622	4.5	182,116	(7.4)	444,220	5.7	93,286	30.1
13	13	Lincoln Investment Planning	397,137	(0.3)	99,892	0.7	270,055	(0.7)	27,190	0.5
14	14	Principal Securities	375,849	2.5	224,137	1.0	129,388	(3.3)	22,325	103.3
15	15	Park Avenue Securities	337,478	5.8	182,568	8.5	154,911	2.9	NA	NA
16	16	First Command Financial Services	266,741	(3.1)	19,663	5.8	219,674	(4.2)	27,043	(1.1)
17	17	Independent Financial Group	260,371	(2.5)	106,008	(7.9)	131,930	1.1	22,433	4.3
18	18	Centaurus Financial	212,602	5.0	131,814	(1.7)	72,285	5.7	8,504	NA
19	19	United Planners Financial Services of America	173,671	(3.2)	46,882	(13.1)	120,268	0.6	6,522	10.6
20	20	PlanMember Securities	144,000	2.1	27,360	59.8	116,640	(3.6)	NA	NA
21	21	Hornor, Townsend & Kent	131,913	2.1	76,449	(0.5)	51,143	2.7	4,321	65.1
22	22	Geneos Wealth Management	119,666	(5.8)	7,939	(18.2)	90,587	(0.4)	21,140	(19.8)
23	23	Prospera Financial Services	109,573	0.4	27,352	(3.6)	72,778	2.6	9,443	(3.9)
24	24	Concourse Financial Groups Securities	99,182	(8.9)	52,128	(9.1)	40,940	(8.9)	6,114	(6.4)
25	26	Kovack Financial Network	98,714	3.9	41,460	(2.0)	55,642	8.2	1,613	28.4
26	30	Arkadios Capital	97,926	23.8	53,859	23.8	44,067	23.8	NA	NA
27	27	Lion Street Financial	89,279	(0.1)	43,557	(9.1)	18,961	8.8	26,279	9.2
28	25	Arete Wealth	88,757	(10.2)	34,615	(19.1)	22,189	3.8	31,952	(7.8)
29	28	Independent Financial Partners	83,000	0.0	11,000	(4.3)	66,000	1.5	6,000	(7.7)
30	29	Harbour Investments	81,762	3.1	24,700	(4.5)	48,743	6.7	8,319	7.7
31	31	The Investment Center	76,273	(2.0)	31,833	(7.6)	38,664	0.6	5,775	17.2
32	32	The O.N. Equity Sales Company	61,298	(12.7)	42,891	(14.6)	18,287	(8.1)	121	3.5
33	34	Level Four Financial	60,550	12.1	25,500	6.3	35,000	20.7	500	NA
34	33	The Strategic Financial Alliance	59,300	3.5	18,500	(3.6)	35,700	7.5	5,100	4.1
35	34	LaSalle St. Securities	58,000	7.4	35,000	6.1	21,000	10.5	2,000	0.0
36	36	International Assets Advisory	46,505	3.7	14,574	(13.2)	23,504	13.1	8,427	15.8
37	37	CFD Investments	43,552	6.2	17,871	8.1	22,266	4.0	3,415	11.8
38	38	Founders Financial Securities	40,670	6.2	12,393	167.6	26,182	(17.9)	2,095	19.0
39	39	Kingswood Capital Partners	39,934	6.8	39,003	7.4	681	(21.3)	250	16.3
40	40	Packerland Brokerage Services	36,848	4.5	24,757	8.7	10,147	3.7	1,945	(28.1)
41	41	Fortune Financial Services	18,826	(7.5)	18,826	(7.5)	NA	NA	NA	NA

IBD Elite 2024: The myth of big versus small

TOP 10 LISTS

REVENUE GROWTH

2024 Rank	COMPANY NAME	TOTAL REV. $000	% GROWTH
1	Arkadios Capital	97,926	23.76
2	Cetera and Avantax	3,949,823	18.03
3	LPL Financial	10,052,848	16.88
4	Northwestern Mutual	2,501,262	13.51
5	Level Four Financial	60,550	12.13
6	Commonwealth Financial Network	2,286,268	10.20
7	MML Investors Services	1,725,400	9.63
8	Raymond James Financial Services	3,915,874	9.07
9	Cambridge Investment Research	1,587,566	8.23
10	LaSalle St. Securities	58,000	7.41

PAYOUT GROWTH

2024 Rank	COMPANY NAME	AVERAGE PAYOUT $000	% GROWTH
1	Equitable Advisors	220	142.10
2	Arete Wealth	302	52.91
3	International Assets Advisory	262	25.32
4	Prospera Financial Services	490	12.93
5	MML Investors Services	191	7.13
6	Osaic	326	5.70
7	Cambridge Investment Research	312	5.02
8	LaSalle St. Securities	185	4.56
9	Independent Financial Group	399	4.47
10	CFD Investments	234	4.21

FEE-BASED MIX

2024 Rank	COMPANY NAME	FEE REV. $000	FEE REV AS % OF TOTAL REV
1	First Command Financial Services	219,674	82.4
2	PlanMember Securities	116,640	81.0
3	Independent Financial Partners	66,000	79.5
4	Geneos Wealth Management	90,587	75.7
5	Commonwealth Financial Network	1,611,256	70.5
6	United Planners Financial Services of America	120,268	69.3
7	Northwestern Mutual	1,709,405	68.3
8	Lincoln Investment Planning	270,055	68.0
9	Prospera Financial Services	72,778	66.4
10	Founders Financial Securities	26,182	64.4

WOMEN AS A % OF PRODUCING REPS

2024 Rank	COMPANY NAME	% FEMALE REPS	% MALE REPS
1	Kovack Financial Network	30	70
2	Level Four Financial	25	75
3	Independent Financial Group	24	76
4	Harbour Investments	22	78
5	LaSalle St. Securities	22	78
6	Lincoln Investment Planning	21	79
7	Centaurus Financial	21	79
8	United Planners Financial Services of America	19	81
9	Cambridge Investment Research	17	83
10	Raymond James Financial Services	16	84

TOTAL ACCOUNT ASSETS

2024 Rank	COMPANY NAME	TOTAL ACC. ASSETS $000	% CHANGE
1	LPL Financial	1,354,100,000	21.9
2	Osaic	601,728,821	9.6
3	Cetera and Avantax	489,722,947	24.1
4	Raymond James Financial Services	460,111,000	15.4
5	Northwestern Mutual	313,540,834	22.6
6	Commonwealth Financial Network	296,306,733	22.0
7	MML Investors Services	239,800,000	13.3
8	Equitable Advisors	221,000,000	14.2
9	Cambridge Investment Research	162,419,271	12.5
10	Kestra Financial	116,552,751	13.0

HIGHEST GROWTH IN PRODUCING REPS

2024 Rank	COMPANY NAME	% CHANGE IN PRODUCING REPS
1	Kingswood Capital Partners	37.2
2	Arkadios Capital	30.4
3	Level Four Financial	8.5
4	Cetera and Avantax	6.6
5	Founders Financial Securities	5.6
6	Harbour Investments	4.1
7	LaSalle St. Securities	3.8
8	Prospera Financial Services	3.7
9	Commonwealth Financial Network	3.6
10	Kovack Financial Network	3.6

METHODOLOGY

Results are based on data from 41 participating firms in the IBD Elite. Financial Planning relied on the firms to ensure the accuracy of the information. FP works to verify data when possible. *Figures for Atria Wealth Solutions are derived from its participation in other public annual surveys tracking the independent brokerage channel. "NA" means not applicable or not available. The 2022 data does not always match last year's survey because some companies restated data; as a result, some of the rankings from the prior year are different. The data for some firms that merged may have also changed from last year's survey. All figures reflect calendar year numbers. Total revenues drive the overall IBD Elite rankings. Due to a technical glitch, the initial Financial Advisor Payout list excluded certain results for Strategic Financial Alliance; the ranking has now been updated.

FINANCIAL ADVISOR PAYOUT

		AVERAGE PAYOUT		TOTAL PAYOUT										
2024 Rank	COMPANY NAME	$000	% CHANGE	$000	% CHANGE	TOTAL REPS	% CHANGE	PRODUCING REPS	% CHANGE	REPS ADDED	REPS DROPPED	CFPS	% MALE REPS	% FEMALE REPS
1	Commonwealth Financial Network	760	1.5	1,667,761	5.1	2,828	5.0	2,193	3.6	292	158	1,268	84	16
2	Arkadios Capital	556	(5.1)	97,926	23.8	195	27.5	176	30.4	43	13	38	90	10
3	Raymond James Financial Services	554	(5.1)	2,534,000	(5.4)	6,551	(2.0)	4,573	(0.3)	327	343	1,272	84	16
4	Prospera Financial Services	490	12.9	83,350	17.1	170	3.7	170	3.7	12	10	26	89	11
5	Geneos Wealth Management	438	(9.0)	100,805	(9.0)	275	0.0	230	0.0	0	0	85	NA	NA
6	The Strategic Financial Alliance	430	NA	NA	NA	127	2.4	100	(4.8)	0	0	0	NA	NA
7	Kestra Financial	418	0.3	539,021	0.6	1,683	0.3	1,290	0.3	0	0	412	84	16
8	Independent Financial Group	399	4.5	211,663	(4.0)	625	(10.3)	530	(8.1)	48	87	0	76	24
9	Harbour Investments	337	1.3	76,762	5.5	284	3.3	228	4.1	20	11	45	78	22
10	United Planners Financial Services of America	329	(2.1)	153,127	(0.8)	561	1.3	465	1.3	59	53	126	81	19
11	Osaic	326	5.7	3,291,480	0.9	11,921	(6.5)	10,085	(4.6)	0	0	0	84	16
12	Northwestern Mutual	312	8.8	1,768,988	9.6	8,955	4.0	5,671	0.7	0	0	1,498	88	12
13	Cambridge Investment Research	312	5.0	1,159,430	2.8	4,562	(2.6)	3,719	(2.2)	221	356	0	83	17
14	Independent Financial Partners	311	1.8	71,000	4.1	275	1.9	228	2.2	0	0	0	NA	NA
15	Arete Wealth	302	52.9	46,448	(6.9)	230	(28.3)	154	(39.1)	0	81	0	NA	NA
16	Founders Financial Securities	296	(1.0)	28,102	4.5	94	4.4	95	5.6	4	4	30	NA	NA
17	Centaurus Financial	278	3.8	191,344	4.4	688	(1.4)	688	0.6	0	0	214	79	21
18	Lincoln Investment Planning	266	0.2	259,110	(0.8)	996	(0.3)	974	(1.0)	76	86	207	79	21
19	International Assets Advisory	262	25.3	33,858	10.7	199	10.6	129	(11.6)	0	0	0	NA	NA
20	PlanMember Securities	259	0.0	125,280	2.1	484	2.1	484	2.1	0	0	0	NA	NA
21	The Investment Center	253	(5.0)	66,452	(3.1)	295	(2.3)	263	1.9	10	20	53	86	14
22	CFD Investments	234	4.2	33,650	6.4	144	2.1	144	2.1	12	9	0	94	6
23	Equitable Advisors	220	142.1	968,000	150.5	0	NA	4,406	3.5	0	0	511	NA	NA
24	Cetera and Avantax	219	3.5	2,590,143	10.4	13,147	7.7	11,833	6.6	0	0	0	NA	NA
25	First Command Financial Services	202	(1.7)	133,623	(3.3)	684	(1.3)	660	(1.6)	0	0	0	NA	NA
26	MML Investors Services	191	7.1	1,058,338	1.5	5,562	(12.0)	5,554	(5.3)	0	0	575	NA	NA
27	Concourse Financial Groups Securities	188	(1.2)	73,940	(9.1)	627	(8.3)	394	(7.9)	0	0	0	NA	NA
28	LaSalle St. Securities	185	4.6	51,000	8.5	335	3.1	275	3.8	12	2	75	78	22
29	Hornor, Townsend & Kent	169	2.0	94,996	0.8	774	0.5	563	(1.2)	0	0	0	NA	NA
30	The O.N. Equity Sales Company	152	0.7	48,455	(20.4)	459	(17.9)	318	(20.9)	0	0	48	NA	NA
31	Level Four Financial	141	0.5	36,000	9.1	158	9.0	255	8.5	15	2	56	75	25
32	Kingswood Capital Partners	125	(21.1)	36,874	8.3	331	35.1	295	37.2	0	0	11	89	11
33	Packerland Brokerage Services	116	0.2	33,073	3.1	288	2.9	285	2.9	31	18	18	86	14
34	Fortune Financial Services	60	0.4	15,161	(7.6)	254	(8.0)	254	(8.0)	0	0	0	NA	NA
35	Lion Street Financial	165	0.7	94,249	6.7	378	2.2	267	2.7	30	22	62	NA	NA
36	Park Avenue Securities	151	1.0	60,859	(16.3)	0	NA	2,347	(0.8)	0	0	0	NA	NA
37	Kovack Financial Network	116	(11.6)	32,066	(13.1)	412	NA	405	3.6	32	37	89	70	30
38	Principal Securities	91	2.9	386,409	(0.0)	1,387	(2.7)	1,298	(0.8)	0	0	0	NA	NA
39	Ameriprise Financial	69	17.5	1,807	(10.2)	8,139	(0.4)	8,139	(0.4)	0	0	0	NA	NA
40	Atria Wealth Solutions*	59	(13.2)	16,405	(14.7)	0	NA	2,368	(11.4)	0	0	0	NA	NA
41	LPL Financial	0	(6.7)	NA	NA	22,660	6.5	0	NA	0	0	0	NA	NA

The National Portrait Gallery in London.

CARLOTTA CARDANA/BLOOMBERG NEWS

Great art can bring grand tax savings on capital gains

Works of art carry higher rates than most investments, but financial advisors and their clients can tap into trusts, charitable donations, loss harvesting and the stepped-up basis.

By Tobias Salinger

Paintings, sculptures and other types of art carry potential tax advantages to their owners alongside their aesthetic beauty.

Charitable donations, trust planning, loss-harvesting strategies and the stepped-up tax basis of assets upon the death of the owner represent some of the opportunities available to financial advisors and their clients. While the IRS has warned wealthy art owners and their tax professionals about bad actors' inflated promises of lucrative savings, high net worth and ultrahigh net worth clients have displayed enthusiasm for investing in the asset class, and the largest international shows draw countless financial firms eager to find business.

Charitable deductions

Art is "not something that comes up all the time" in discussions with clients, Roshan Weeramantry, a partner and co-head of wealth management at Everett, Washington-based registered investment advisory firm Helium Advisors, acknowledged in an interview.

Still, the "important thing is just to have the conversation" because clients may have acquired tens of thousands of dollars worth of art over the years that "should be involved in the financial planning process," he said. For example, charitable deductions can spread out as long as five years, and a client with an income of $400,000 could slash as much as $120,000 off that amount and push their federal rate down to 24% from 32% through making a donation, Weeramantry noted.

> **"We have the conversation quite often around the benefit of incrementally donating over the course of their lives."**
> **— Roshan Weeramantry**

"We have the conversation quite often around the benefit of incrementally donating over the course of their lives," he said. "We try to really toggle it so that we can help our clients minimize their taxes from year to year as much as possible."

The value of those donations could reduce or cancel the tax impact of capital gains from selling appreciated stock or the added income of a required minimum distribution from an individual retirement account, he pointed out. Alternatively, if a qualified charity uses the art in furtherance of its mission and any piece worth over $5,000 receives an appraisal, the donor can get a deduction for the fair market value, according to Allen Laufer, a managing director and the director of financial planning with Silvercrest Asset Management Group, a New York-based RIA.

"Consider utilizing a charitable remainder trust (CRT) for the sale of artwork," Laufer told Financial Planning in an email. "The CRT allows you to defer the capital gains tax on the sale of your art and reinvest the full sales proceeds. The immediate financial benefits you receive from creating a CRT is tax-deferred diversification of a low-cost asset, the ability to invest the pretax proceeds from the sale of the artwork into a diversified investment portfolio and receive an income tax deduction based on the present value of the remainder interest that will ultimately pass to charity."

The stepped-up basis

Even though capital gains avoidance always looms large for those who invest in art, the higher cost of borrowing under the elevated interest rates of recent years is likely driving down art sales, according to a blog post last month by Howard Gleckman, a senior fellow with the Urban Institute and Brookings Institution's Tax Policy Center.

The use of debt provides further tax deferral on top of the stepped-up basis, which enables the heirs who receive the asset upon the death of the owner to evade any capital gains tied to its growth in value.

The IRS has warned wealthy art owners and tax professionals about bad actors' inflated promises of lucrative savings, but high and ultrahigh net worth clients have displayed enthusiasm for investing in the asset class.

"Crucially, any increase in the value of an asset is untaxed until it is sold. And if owners hold it until they die, no tax ever is owed on any increase in its value during the decedent's lifetime, thanks to something called stepped-up basis," Gleckman wrote. "This system creates enormous incentives for art aficionados to avoid selling assets to finance their next Warhol and, once they buy it, to find ways to monetize its value without ever selling it."

The stepped-up basis works the same with art as it does with homes or any other asset, but advisors and their clients should remember that the decedent's estate must pay taxes on the appreciation over their lifespan, Weeramantry noted.

With the current higher exemptions on estate taxes up to 40% set to expire at the end of next year, the "massive benefit to the step up in basis" could look different for families that no longer qualify in 2026, he said.

Collecting or investing?

One provision of the Tax Cuts and Jobs Act of 2017 that is permanent, however, removed the ability of advisors and their clients to use "like-kind" 1031 exchanges that defer capital-gains taxes for swaps of art or other collectibles, Laufer noted.

The elimination of that method added to the importance of other tools that can offset capital gains, such as harvesting stock portfolio losses that occurred in the same year as the sale of an art asset.

That brings "permanent tax savings for the seller" because long-term art assets that have appreciated in value are subject to a 28% rate on the gains — compared to the 20% hit on most portfolio investments, Laufer told Financial Planning.

In general, advisors and clients should figure out whether the art buyer is simply acting as a collector engaged in a hobby or as an investor seeking a profit, according to Laufer. The latter classification enables clients to deduct any losses on the sales of art and expenses relating to the maintenance of the works.

To qualify, the client "must demonstrate that they are engaged in the activity with the objective of making a profit," he said.

"Taxpayers bear the burden of proving a profit motive, which requires an analysis of the facts and circumstances. While no single factor controls, some factors considered in determining a profit motive include the time and effort devoted to the activity, the expertise of the taxpayer or their advisors, expectation of profit and the history of income or loss. It is important for taxpayers to maintain thorough records of purchases, expenses and appraisals." **FP**

Tobias Salinger *is the chief correspondent of Financial Planning. Follow him on Twitter at @TobySalFP.*

TRAITOV/ADOBE STOCK

Paying off mortgages into retirement may make sense

Low-interest debt backed by an asset, good; high-interest, unsecured credit cards, not as good.

By Rob Burgess

Paying off financial obligations into one's golden years may sound less than ideal, but advisors say it all depends on the type and cost of the debt.

Just over one-quarter of self-described retirees with investable assets are still paying off a mortgage and a similar number reported trying to pay down existing credit card debt, according to a recent Nationwide survey.

Noah Damsky, CFA and founder of Marina Wealth Advisors in Los Angeles, said he views mortgages as a "good debt" since they are backed by an asset. "If that asset grows sufficiently to compensate for the cost of debt, then it can be a great investment," he said.

Andre Jean-Pierre, founder of Aces Advisors in New York, said his clients on average continue to make mortgage payments for about seven years into retirement. While these lingering mortgages present financial challenges, the inflation hedge of long-term home ownership makes it a net positive.

Damsky said he has clients with over $1 million in mortgage balances at less than 3%. In these cases, "the last thing they want to do is pay it off sooner," he said. Another client of his just purchased a home with over 6% interest rate and is now accelerating payments with an extra month payment each year to save on interest expense.

Andrew Herzog, wealth advisor at The Watchman Group in Plano, Texas, said some of his clients pay off mortgages into retirement, but generally on second homes. "The interest rate they secured years ago is so low that they had no motivation to pay it off early," he said.

Tammy Wener, co-founder of RW Financial Planning in Lincolnshire, Illinois, said for her clients, the majority of these obligations involve mortgage debt at meager interest rates on homes that have significantly increased in value. One of her client couples in their late 70s is comfortable with their mortgage debt because they have the income to pay it and own treasury bills earning a higher interest rate. Meanwhile, another client decided to pay down the additional principal in the last few years before early retirement.

"They felt strongly about not having debt in retirement,

Continued on page 36

WASAN/ADOBE STOCK

Advisors, clients warm up to preferred securities

The growing fixed-income products carry some risks, but their returns and tax savings can be attractive.

By Tobias Salinger

Capital requirements for banks are yielding tax-advantaged gains for financial advisors and their clients in the form of preferred securities — a bond that shares some characteristics with stocks.

Investments in fixed-income products are growing by billions of dollars due to the appeal of after-tax returns that are favorable to municipal, investment-grade corporate and high-yield bonds, according to a report by Parametric, an asset management firm owned by Morgan Stanley that specializes in direct indexing and other custom strategies. Primarily issued by banks, insurance companies or other financial services firms subject to regulatory minimums in their capital, many preferred securities pay investors qualified dividend income taxed at a 20% federal rate for the wealthiest filers. That's well below the 37% rate for ordinary income.

Risks in the asset class include their subordination in the default scenario to senior tranches of debt, crises like the one that rippled through the financial services space last year and banks' exposure to commercial real estate through their lending in the sector, according to Kevin Lynyak, a managing director on Parametric's fixed-income team.

Still, over the past decade, preferred securities have outpaced the returns of municipal, corporate and high-yield bonds, the firm's report showed. And investments into them have reached $300 billion in the U.S. and $1 trillion globally, Lynyak noted in an interview.

"It's popular with financial advisors and retail investors," he said, noting how individual clients and wealth management professionals have become "very focused on tax and tax alpha, as well as tax advantaged solutions" in recent years.

Other large asset and wealth management firms are taking notice of the potential. Fidelity Investments and Charles Schwab each offer screening tools and potential caveats to the draw of the products.

"Investors that are looking for income and are willing to take some risk for higher yields could consider preferreds, but investors with more conservative-to-moderate risk tolerances might want to consider investment-

Continued on page 32

50
40
30
20
10

KIATTISAK/ADOBE STOCK

Advisors look to private markets for diversification

As more portfolios rely on alternative investments, expertise in sorting out good from bad opportunities is critical.

By Dan Shaw

Craig Robson rarely has new clients coming to ask about how they can get into private markets.

Rather, said the founding principal and managing director of Regent Peak Wealth Advisors in Atlanta, they're usually looking for a way to avoid repeating the losses they might have suffered in both their bond and stock portfolios in a year like 2022.

That's when the conversation often turns to the possible benefits of putting money into private equity, credit, real estate or venture capital funds, Robson said.

"The majority of them are saying, 'We've created a lot of wealth already, so we don't need to hit home runs. We just don't want to lose our wealth,'" Robson said. "And so things that we could do to provide downside protection are certainly of interest."

Robson said he primarily works with high net worth clients and will recommend they have from 10% to 30% of their portfolios in private markets. Anything less than 10% is too small to be meaningful, he said. But advisors of course have to be careful not to put too much of clients' money in investments that often don't pay out for years.

Recent surveys show Robson's predilection for private markets is shared by many of his fellow wealth managers.

The alternative asset giant Blackstone's private wealth solutions group conducted a poll of more than 450 advisors from April to June and found that over 90% had helped investors into private markets. Over 70% of the respondents said their clients had allocations of 5% or more.

A separate survey Bank of America Private Bank conducted in January and February of just over 1,000 of its high net worth clients found that comfort with alternative investments runs highest among the young.

Of customers between the ages of 21 and 43 with $3 million or more to invest, 17% attested to having money in alternatives like private equity. Only 5% of the respondents who were 44 or older could say the same.

The No. 1 reason that advisors in Blackstone's poll cited for investing in private markets: diversification. That jibes with Robson's experience.

Again, he noted, clients almost never initiate a discussion of private markets with him or his associates. Rather, they'll come to him after finding that supposedly tried-and-true methods of hedging against investing risks came up short.

That was the case following the 2022 downturns in both the stock and bond markets. Before then, many investors and advisors believed the two types of assets were inversely correlated, meaning if prices went down for one, they'd inevitably go up for another. Then markets gave the lie to that hypothesis.

"When we met with some prospects after 2022, they were coming because they were disappointed in that volatility," Robson said. "And they didn't necessarily say, 'Well, I want to talk about private investments.' But they said, 'We'll come to you because we're looking for something different because, candidly, what we owned wasn't working.'"

Blackstone's market survey found that 71% of its respondents cited diversification as their primary goal for helping clients invest in private markets. Only 11% said they were going after the often-trumpeted higher returns supposedly offered by alternatives.

Reasons for caution

Like most wealth managers, Robson is quick to acknowledge private markets aren't for everyone. He generally thinks they should be reserved for clients with at least $2 million in investable assets — a fairly high threshold.

Robson said there is always the risk that a private investment won't perform as well as hoped, but he's more worried about liquidity.

Clients who can't afford to have a substantial part of their portfolios locked up for years on end should probably stick to public markets and the accommodations they offer to investors wanting to pull out cash.

Others have even greater misgivings. Noah Damsky, founder of Marina Wealth Advisors in Los Angeles, called private markets a "wasteland" posing many risks to often unwary wealth managers and clients.

Being able to sort out the good bets from the bad requires expertise and techniques that are far from common in the industry.

There's also a lack of general understanding of how private markets work. Many of the best investments tend to be bought up by institutions, which often get first dibs simply because they can write the biggest checks, Damsky said.

Wealth managers may not know what to look for when weighing the opportunities in private markets.

By the time the opportunities reach retail advisors and their clients, he said, all that is left are "crumbs."

"When they can't syndicate these deals to institutional investors, well, they've got to get it from somewhere, because they don't want to hold it on their balance sheet," Damsky said.

Damsky didn't deny that there can be some good bets in private markets. He just questioned the ability of everyday advisors and investors to sort out the most promising from the downright treacherous ones.

Many wealth managers may not know what to look for when they're weighing the huge variety of opportunities presented by private markets.

And even those who can pose good questions may not know the next steps to take with the answers they receive.

"You can ask for data," Damsky said. "But then you have to know what to do with the data. You have to know how to analyze it, and many probably don't."

Tech firms to the rescue

A number of firms have emerged to help wealth managers untangle some of these complexities and clear investors' paths into private markets. BlackRock has enlisted the Chicago-based tech firm GeoWealth to offer unified managed accounts consisting partly of private funds. Wealth managers will be able to have the accounts set up on behalf of their clients.

"By combining BlackRock's portfolio design expertise with GeoWealth's implementation platform, we will make it easier for advisors to build a models-based practice and enable broader access to private markets — one of today's most sought-after asset classes," Eve Cout, the head of portfolio design and solutions in BlackRock's U.S. wealth advisory business, said in a statement.

Blackstone's survey suggests that the main attribute advisors look for in an outside manager of private investments — cited by nearly half of the respondents — is a strong track record with performance.

One firm that's on the forefront of helping wealth managers and their clients through the wilderness of alternatives is Opto Investments, which bills itself as "the fiduciary's private markets investment partner."

Jacob Miller, the firm's co-founder and chief solutions officer, said Opto acts like a fiduciary itself in that it doesn't accept payments from fund managers in return for presenting their products to clients.

Instead, Opto sets up custom funds on behalf of investment advisors and charges them management and performance fees. It's a system that's at least somewhat similar to how many

RIAs charge fees based on the total amount of assets they oversee for clients.

Did you try calling the auditor?

Miller said Opto often learns of possible private investments from existing clients such as wealthy families or backers like the Government Investment Corporation of Singapore, a sovereign wealth fund.

Then begins the difficult task of deciding which opportunities merit a closer look. Miller said Opto relies on technology to screen out the roughly 90% of funds that are brought to its attention.

"From there, it's still a people-based process," he said. "And I don't think technology is likely to disrupt that anytime soon."

With the opportunities that remain following Opto's sorting process, Miller and his colleagues take a close look at factors such as how they propose to make money and how their managers expect to be paid.

"And then the simple thing that people forget to do sometimes is that we make sure to call everyone's auditor," Miller said.

The illiquidity factor

Miller agreed that the illiquidity of private investments probably means they are best reserved for clients who aren't likely to need money at a moment's notice.

But with diversification becoming an ever more desirable goal, advisors who haven't got at least some familiarity with alternatives markets could end up doing their clients a disservice, he said.

Miller said Opto works with RIAs managing both as little $600 million and as much as $65 billion. Skepticism and wariness of private markets now run throughout firms of all sizes, he said.

Dispelling fears

Part of Opto's mission, Miller said, is to dispel some of those fears.

"If you think about a $10 million client making a $250,000 allocation to a fund that's going to last seven years, were they actually going to spend that $250K in that period?" he said. "But if that $250,000 can kick off a 15% yield with relatively compensatory risks and create a reliable source of income, doesn't that actually make a lot of sense?" **FP**

Dan Shaw *is a reporter for Financial Planning.*

Continued from page 29

grade corporate bonds instead," Schwab Director Collin Martin wrote in a March report on the asset class.

At that time, Schwab's outlook remained "positive," but Martin's note pointed out that "it may be difficult to replicate the strong returns of the past few quarters."

In a May note by Chief Fixed Income Strategist Lawrence Gillum, LPL Financial's research arm also took a cautiously optimistic tone toward preferred securities.

The products "have outperformed many other plus (and core) sectors so far this year," and active managers are serving as the "preferred expression within the sector" because they can "take advantage of the relative value opportunities across markets" better than ETFs, Gillum wrote.

"These financial institutions can likely weather any potential recessionary storm while continuing to pay dividends on their preferred securities," he wrote. "While we still recommend the majority of fixed income exposure to be allocated to core bonds, for those income-oriented investors willing to take on some additional credit risk, preferred securities may be an attractive investment to consider."

Alongside the after-tax income, preferred securities carry a "low correlation to traditional fixed income" and comparable pretax returns to U.S. junk bonds, according to a 2023 report from Parametric.

"In the [investment-grade] fixed-income universe, few alternatives can match the high potential after-tax yields of preferreds," the report by Lynyak and Parametric Director James Benadum said. "With their unique structure and lower correlation, preferreds are an attractive complement to traditional fixed income, and an active manager can capitalize on inefficiencies inherent in this asset class."

Active management can also help keep investors away from riskier holdings in small banks, Lynyak noted. Most preferred securities receive investment-grade ratings that are just below senior debt, and default rates on the products have averaged less than 1% per year — about the same as comparably rated corporate bonds.

"You're getting a coupon at 20% instead of 37%, and a lot of it in very solid names," Lynyak said. "For taking some of the subordination risk, some of the financial exposures, I think you've got potential for some outsize returns." **FP**

Tobias Salinger *is the chief correspondent of Financial Planning. Follow him on Twitter at @TobySalFP.*

ITCHAZNONG/ADOBE STOCK

Firms, tech vendors have shorter-term relationships

Quickly evolving tech means wealth management firms find it harder to enter into long-term contracts with vendors.

By Rachel Witkowski

Similar to how quickly many consumers now upgrade to a new phone — often within just a few years — vendor relationships are getting shorter as more advanced technology enters the market.

"I would prefer the shortest agreement that I could possibly get, so that's usually our first negotiation — the terms and the length of the terms," said Joe McQuaid, managing director at Concurrent, an RIA platform based in Tampa, Florida. "I very rarely get it to a one-year [contract], but I very rarely agree to three. … Three years is a long time."

McQuaid's sentiments were echoed by many others at wealth management firms who said their preference is to have vendor contracts at two years or less, mainly because of how quickly technology is moving into advanced machine learning, AI and open data models.

"I've seen five-year and seven-year proposals, which I think is absolutely nuts for a wealth management firm of whatever size to consider, because technology is evolving so rapidly," said John Mackowiak, chief revenue officer at Advyzon, a cloud-based portfolio management platform in Chicago.

Mackowiak said the new, smaller technology providers are also more likely to be acquired by larger organizations, which means the contracts will roll over with the new owner.

Fear of getting stuck with old technology is a major reason why contracts are running shorter.

"So you're then maybe stuck with a vendor that is no longer the vendor that you bought into, and you've got three, four, five years left on an agreement," he said.

That fear of getting stuck with old technology or a different vendor than initially chosen is a massive driver for why contracts are running shorter.

"The fintech world is now open where you're going to be changing a lot," McQuaid said. "With data management and data lakes and AI, I think it's going to make it a lot easier for us to pick up and move to the new version

Continued on page 36

93%
65%
63%
ACTUAL vs TARGET

ADOBE STOCK

With new tech, advisors are the best beta testers

As wealth managers rush to keep up, a common oversight is not testing new tools on those who will use them.

By Rachel Witkowski

One of the biggest mistakes a wealth management firm can make in launching a new technology or AI tool is not thoroughly testing it with the users first.

As simple as that sounds, advisors say it happens often — a firm might run a new tool through the IT department, compliance and senior leaders, but then do very little beta testing with advisors on the ground who are most likely to use the technology.

"There's so much new fintech out there, and there's so many things that firms can build seemingly pretty easily to help streamline an advisor's practice. But historically, the industry never included the advisor in that process," said Andree Mohr, president of Integrated Partners, a hybrid registered investment advisor based in Waltham, Massachusetts.

For the past few years, Mohr has been advocating for firms to include advisors and practice managers in a beta testing group in addition to running the tech through IT and compliance. Mohr said Integrated Partners usually conducts beta testing groups of five to 10 advisors who are most likely to use the new technology.

> **"How you build the technology and how you use the technology are always two completely different things."**
> **— Andree Mohr**

"How you build the technology and how you use the technology are always two completely different things. And advisors run their businesses in different ways," she said. "Without having the advisor's voice in the process, it creates all of these barriers to entry for advisors and their teams to leverage that technology."

Barriers to integration

On average, advisors are utilizing only 62% of the tech they have, which is about half integrated, according to a survey of 542 participants conducted by wealthtech platform Orion Advisor Solutions in January. The study also found 1 in 10 respondents felt they had all the technology their firm needs. Results indicate that while the tech is available to advisors, they're not maximizing their use of it.

One barrier to a good tech integration can be user feedback — both in terms of collecting frank feedback from beta testers as well as making sure that includes particulars on how well the new tool works with the existing technology advisors are already using.

Firms will "just jump in and say, 'OK, we're going to launch this thing and see how it goes.' And then you start getting bad feedback," said Scott Lamont, managing director at F2 Strategy, a wealthtech consultant. Advisors "are not comfortable using the tool, and that creates a negative vibe around the whole process. And pretty soon, you have people just complaining about it or ignoring it altogether."

Lamont said F2 often gets pulled in by advisory firms that have already made "some bad decisions" about tech implementation.

"I would never tell them that they've chosen the wrong technology … because I don't think there is a best. There's a lot of good pieces of tech that need to be embedded in the right way," he said. "Mostly it's about us understanding, what were you trying to accomplish, and how did you lead up to making that decision? One of the things that we talk about a lot is having champions."

Those champions Lamont is referring to are the advisors or key stakeholders who are most impacted by the new tool — the people who will end up being the "key, strong voices for the tech," he said.

Being flexible with feedback

But getting advisors' input also means having a willingness to receive and respond to feedback, even if it means stopping the tech implementation or changing directions.

Ed Friedman, director of business development and growth at Summit Financial, an RIA based in Parsippany, New Jersey, recalled a situation several years ago in which his firm sought advisor feedback on a platform for 401(k) management called FeeX.

> **Firms will "just jump in and say, 'OK, we're going to launch this thing.' … And then you start getting bad feedback."**
> **— Scott Lamont**

At the time, it was "really impressive, very interesting. I thought it was a little young in their development, and I did run it by a couple of advisors," he said. "Their response was, 'Sounds really interesting but I don't know that we'd have an interest right now.'"

FeeX rebranded to Pontera in 2022 and made what Friedman called "significant technology development," so he went back to his core testing group of advisors.

"Fast forward, about 10 months ago, we put Pontera on the platform, and it's been a big hit for us," he said.

But when the tech is already being implemented, pausing that forward motion due to received feedback is much more challenging for a firm. Typically, firms set an implementation deadline based on the launch date at the outset, before integration and testing is complete.

"Advisors like to give you their opinion, which is great, and so they'll tell us, and we listen. Because if they don't like it and they won't use it, then it makes no sense for us to implement that technology," Mohr said.

The converse can also be true, she said: "If they love the technology and we roll it out, they become the spokespeople for that technology. And advisors love to hear from other advisors, so it's a great way that we can build adoption."

Expect a big commitment, time-wise and more

Mohr also acknowledged that the process takes time — anywhere from one month to six months, with more complex integrations and consumer-facing tools taking the longest.

That's a challenge when firms are under immense pressure to show a return on new technology investments, as spending has surged for advanced tools like AI. Total spending in wealth management tech is expected to grow nearly 5% to $56.1 billion in 2024, up from $53.7 billion last year, according to a Celent report.

This is when Joel Bruckenstein, producer of the Technology Tools for Today (T3) Conference, said firms need to stress that change is happening regardless.

"In an ideal world, you'd like buy-in from all users, and giving them a voice can be helpful; however, many folks, especially older employees, are often resistant to change," he told Financial Planning by email. "Anything that looks new and unfamiliar will be viewed with skepticism. So, if you make it clear that change needs to happen, and if you solicit feedback from the likely power users on your team, you are most likely to get better results." **FP**

Rachel Witkowski *is a technology reporter for Financial Planning.*

Continued from page 33

of something because the features are just superior to what you're using."

However, McQuaid said there are some relationships firms shouldn't want to change every year. For example, if the vendor is providing a core platform that's deeply embedded in the firm already.

"I do agree that contract terms are getting shorter, but integrations can be quite complex," said Natalie Wolfsen, CEO of Orion Advisor Solutions, a large wealth technology platform based in Omaha, Nebraska.

Wolfsen said when it comes to more complex integrations, those take time, so it's worth having a longer-term relationship.

That's part of the reason why wealthtech platform Envestnet has partnered with Fidelity Investments for 20 years. The Boston-based investment powerhouse said June 13 that it is working with Envestnet to launch a fully integrated Fidelity Managed Account Xchange (FMAX) platform that will allow users to access other services, like its tax management for model portfolios and high net worth solutions.

But maintaining a decades-long relationship while also keeping up with technology as new entrants have entered the market is no easy feat.

"When you're talking about the investment world … there's so much operational plumbing and piping to make this work," said Andrew Stavaridis, Envestnet's chief relationship officer and group head of wealth solutions.

The plumbing aspect that Stavaridis referred to is a platform that can help a firm perform operational functions while staying compliant with regulations.

"There have been times over the last 10 years where we've been behind a little bit. … But we've caught up," he said. "And a lot of the new things that we're delivering to the marketplace are very unique."

Adrian Johnstone, CEO of Practifi, a CRM platform for RIAs, said firms "need to pick a partner, not a provider" if they want a vendor relationship to last more than a few years.

"Make sure that you're choosing technology that suits your business three years from now," he said. "Because if you make the commitment to enter into the agreement, and you take the effort to implement the technology, you don't want to be turning it over in less time." **FP**

Rachel Witkowski *is a technology reporter for Financial Planning.*

Continued from page 28

even if that meant less cash would be available for extras," she said.

Robin Hovis, financial advisor at LPL in Millersburg, Ohio, said clients may want to continue building their portfolios if the rate of growth or earnings on their investments is greater than the rate of interest they are paying on debt.

However, Damsky said all debt is not created equal. He considers credit card debt "bad debt" since it's not backed by an asset. "It's expensive interest that only puts you in a bigger hole every day."

Making the elimination of even small amounts of high-interest, unsecured debt is key to clients being able to fully enjoy their retirement income instead of committing it to repayments, Jean-Pierre said. "With the fixed income nature of most retirement plans, unexpected expenses or financial downturns can easily create a snowball effect of debt," he said.

The survey, conducted by The Harris Poll for Nationwide in January, garnered responses from 564 retired investors with investable assets of $10,000 or more and found that 22% were worried about being able to afford their monthly bills after deciding to stop working.

Advisors said clients sometimes use reverse mortgages to generate additional income in retirement when they're worried about cash flow shortages. Herzog said this "isn't free money," but a loan in which the borrower does not make regular payments. Instead, the lender gives the homeowner a monthly check that comes from the homeowner's equity in the house. Over time, the debt grows as the client owns less and less of the home. The loan is ultimately repaid upon the sale of the home.

"A reverse mortgage can be attractive if you don't plan to leave the home to any heirs and the sale proceeds will be enough to pay off the debt," he said.

While reverse mortgages can be a helpful tool for some retirees, Jean-Pierre said they're not a one-size-fits-all solution. He encourages clients to consider their loved one's wishes and the potential effect on their desire to give their residence to the next generation.

Hovis said reverse mortgages should be the last resort to avoid personal bankruptcy or financial dependency on others in retirement.

"Too often the heirs are not told about the reverse mortgage, and are therefore expecting the value of the home to be part of their inheritance, only to find that this asset has been largely consumed by their parents," said Hovis. **FP**

Rob Burgess *is a reporter for Financial Planning.*

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Grayson

How to help clients include pet care in estate plans

Just 9% of wills take pets into account. Advisors can ensure family pets are properly included in clients' estate planning.

By Pegine Grayson

Financial planners are charged with protecting the things that matter most to their clients — and those things often include pets.

June was National Pet Preparedness Month. It presented a perfect opportunity for advisors and planners to connect with pet-owning clients to help them plan for their beloved pets' long-term care by incorporating their needs into estate plans.

But any month is a good time to make sure pets are incorporated into emergency plans. Below are a few areas to consider and questions to ask to help your clients ensure their pets are cared for after they're gone.

The importance of preplanning when it comes to family pets

Estate plans usually provide for family members, but, incredibly, most of them fail to mention those with fur or feathers. Everplans reports that only 9% of people with a will include provisions for their cats, dogs, horses or exotic birds.

To help a client remember their pet during estate planning, ask toward the beginning of the process: "What can we do now to ensure the best outcome for your pets after you're gone?"

Choose a pet caregiver and cover their future costs

Once the conversation has started, the key question is: "Who have you identified as a potential caregiver for your pet if you were no longer able to care for them?"

For clients who already have a caregiver in mind, advise them to confirm that the caregiver has agreed to accept this responsibility. It's a big one, and even close friends may be reluctant to take it on.

Once the client has a willing caregiver, advisors should then craft a letter with instructions to guide the caregiver. The letter should include information about the pet's medical history and conditions, prescription medications and dosage, veterinary contact, special dietary restrictions, habits, etc.

Clients with horses may need to contact a ranch or stable to ensure a willingness to accept and board them for life.

Finally, ensure your client's chosen caregiver will have enough financial resources to care for the pet (or pets). This can be accomplished either via an outright bequest to the caregiver for this purpose, or by arranging a pet trust. Which option to choose will often depend on the client's tolerance for complexity and the circumstances of the chosen pet caregiver.

Some clients may prefer a pet trust because it helps ensure pets are taken care of and financially secure — even if the selected caregiver falls on hard

Continued on page 40

WEALTH THINK

Celenza

Why more RIAs are offering in-house insurance

Client discussions about legacy planning, taxes and goals can raise questions that are best addressed through insurance.

By Matthew Celenza

Independent RIAs, once viewed as outliers where brokerages and private banks held sway, are now power players in wealth management — and their access to smart insurance strategies is only deepening this trend.

Along with adherence to the fiduciary standard, access to state-of-the-art technologies and investment offerings, RIAs have doubled down on personal service, adding tax and estate planning as core offerings to provide clients with upmarket family office experiences.

Insurance is the obvious next step for RIAs looking to gain significant competitive advantage in the context of risk management.

After all, discussions of legacy planning, taxes, family situations and financial objectives inevitably raise "what if" questions that, often enough, only insurance can address, with the ensuing conversations necessitating deep dives into a client's financial health, prompting crucial discussions about long-term security and risk tolerance.

By integrating insurance as a service offering, RIAs can offer tailored solutions that address a client's specific needs and risk profile. And, in making insurance a core wealth management offering, RIAs disrupt traditional models of insurance distribution dominated by captive agents, ensuring life insurance strategies are in harmony with clients' wealth plans, not competing with them.

The RIA advisor can make sure life insurance outcomes, funding and product type are in line with clients' greater goals, whereas career agents often don't have the same visibility and therefore implement strategies with unintended consequences for the client and their advisor. These consequences usually involve demands on client cash flow for premiums, estate planning considerations and ongoing maintenance of the policy to adapt to life changes.

Change-drivers

The emergence of RIAs as a significant channel for insurance-product distribution is due in large part, as mentioned above, to the asset surges seen in RIA-based wealth managers in past years. But the emergence of agnostic carrier selection for targeted insurance referrals has also played a role. Reaching players in the fragmented RIA marketplace used to be an almost insurmountable challenge for asset managers — until, that is, TAMPs emerged to provide investment supermarkets and attracted RIAs looking for easy access to a wide range of products.

In similar fashion, a handful of insurance platforms accommodating RIAs have emerged, offering a wide array of carriers and specialist services for advisors. Such complexes, consisting of vetted third-party agents, have put a premium on specific expertise over and above geographic proximity of agents.

Working with an internal

insurance partner can be a powerful growth tool, allowing advisors to demonstrate to prospects an understanding of how insurance can impact their tax efficiency and future wealth, as well as showing future clients how they can facilitate a concierge level of support for medical underwriting and other administration.

It allows advisors to remain at the center of their current clients' financial planning, verifying that the insurance piece fits neatly into their many financial goals.

But RIAs face several obstacles to smooth implementation of insurance distribution. RIAs must identify insurance providers with the knowledge and efficiency needed to address the insurance needs of high and ultrahigh net worth clients. They must also develop in-house insurance know-how, which can be challenging due to the complexity of the field. Finally, they must be able to adapt to market changes. Externals such as changing interest rates necessitate a careful review of existing insurance policies, presenting an opportunity for RIAs to demonstrate their value — provided they have the required knowledge or ready access to it.

Specialists (advisors at a partner insurance firm who are conversant in the RIA mindset) can help in these areas. Such experts can appreciate insurance as both a risk management tool and an asset on the balance sheet, as well as the complex expertise needed to deliver agnostic product selection according to a client's bespoke needs.

RIAs are only as good as their specialist vendors, and niche RIA-centric life insurance advisors can help see to it that clients don't outgrow their advisors.

Meanwhile, insurance carriers can thrive in this evolving environment in several ways:

- by utilizing data-driven processes to expedite underwriting and enhance the overall experience for RIA clients;
- by developing insurance products and services specifically designed for RIA clientele; and
- by building strong relationships and fostering open communication with RIAs for successful, long-term partnerships.

By integrating insurance expertise, RIAs can provide clients with a broad financial safety net, while insurance carriers who adapt to the RIA-centric landscape stand to gain market share through strong and reliable partnerships in a new model of collaboration. **FP**

Matthew Celenza *is co-founder and CEO of Boulevard Insurance Strategies.*

Continued from page 38

times, becomes ill or passes before the pet does.

If the client has no designated pet caregiver, they can instead name a trusted animal shelter or other nonprofit to receive the pet, along with a monetary bequest to cover the care costs until the pet can be re-homed.

Larger and/or more unusual pets may require additional legwork upfront. For example, clients with horses may need to contact a ranch or stable to ensure a willingness to accept and board them for the remainder of their life.

Pet-specific financial planning

Once it is determined who will take care of your client's pets after the client's death, then you can ask: "Can you estimate how much money needs to be allocated to ensure your pet's well-being?"

This discussion is significant, as pets can be expensive.

Most pets haven't amassed their own fortunes (apparently, Taylor Swift's cat boasts a net worth of $97 million), and providing for their daily care falls squarely on their caretakers' shoulders. According to the American Pet Products Association, in 2022 Americans spent $136.8 billion on their pets, up nearly 11% from 2021.

Encourage your client to catalog what they spend annually on their pet. The list should include food, grooming, vet bills, walking services, toys and medications, as well as things like dental cleanings, boarding for vacations and even plane tickets.

Once you have that number, the estate plan can specify a formula for funding a pet trust or for a bequest amount, for example: the annual expense amount multiplied by the animal's life expectancy at the time the owner passes.

Most people who own pets consider them to be integral members of the family.

Though advisors can use National Pet Preparedness Month as a reminder to clients to not to overlook pets in the estate planning process, this same reminder can be made at any time of the year.

Incorporating pets into estate plans ensures their continued care and well-being and provides clients with peace of mind, knowing that their beloved animal companions will always be protected, no matter what the future holds. **FP**

Pegine Grayson *is senior vice president and director of philanthropic services at Whittier Trust.*

JULY 2024

CE Quiz

VISIT FINANCIAL-PLANNING.COM/CE-QUIZ TO TAKE FINANCIAL PLANNING'S CONTINUING EDUCATION QUIZ.

From: Structured notes: A nontraditional, customizable tool that's useful for retiring clients

1. Which of these is NOT a type of structured note?

1. Income
2. Digital
3. Absolute
4. None of the above

2. Which of these underlying assets CANNOT be linked to a structured note?

1. Credit
2. Interest rates
3. Currencies
4. None of the above

From: How great works of art can bring grand tax savings on capital gains

3. Charitable tax deductions can be spread out for as long as this many years.

1. Three
2. Five
3. Seven
4. 10

4. For art donations to a qualified charity, the donor must get a qualified appraisal for any piece worth more than this amount.

1. $5,000
2. $7,000
3. $10,000
4. $15,000

From: IRS finalizes rules on selling and exchanging crypto

5. Per Treasury and IRS regulations, brokers will have to report sales or exchange transactions of digital assets, including cryptocurrency, that take place beginning on this date.

1. Dec. 15, 2024
2. Jan. 1, 2025
3. June 30, 2025
4. Dec. 15, 2025

6. On which form will this reporting be made?

1. Form 1099-A
2. Form 1099-C
3. Form 1099-DA
4. Form 1099-INT

From: Trusts are useful but complicated. Here are some basics

7. Currently, a spousal lifetime annuity trust can shield up to this much from estate taxes.

1. $11.61 million
2. $12.61 million
3. $13.61 million
4. $14.61 million

From: Advisors under regulatory scrutiny over single-day trade settlements

8. When did the SEC's T+1 settlement mandate, requiring most trades in stocks, bonds, ETFs and other securities to settle within one day, take effect?

1. March 25, 2024
2. May 28, 2024
3. June 15, 2024
4. It has not yet taken effect

From: The 20 ETFs with the biggest outflows of June 2024

9. Which of the below ETFs had the best one-year return as of July 3, 2024?

1. Vanguard Russell 2000 ETF (VTWO)
2. iShares ESG Aware MSCI USA ETF (ESGU)
3. Vanguard FTSE All-WID ex-US ETF (VEU)
4. Invesco S&P MidCap Momentum ETF (XMMO)

From: The 20 ETFs with the biggest inflows of June 2024

10. Which of the below ETFs had the WORST one-year return as of July 3, 2024?

1. iShares MSCI EAFE Growth ETF (EFG)
2. iShares iBoxx $ Invmt Grade Corp BD ETF (LQD)
3. iShares 20-Plus Year Treasury Bond ETF (TLT)
4. iShares Core US Aggregate Bond ETF (AGG)

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In addition, the Investments & Wealth Institute, formerly the Investment Management Consultants Association, has accepted this quiz for CIMA, CIMC and CPWA CE credit. Advisors must answer eight out of 10 questions correctly to pass. The deadline is July 31, 2025.

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